

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 FCC-01
OTPE-00 OC-06 CCO-00 TRSE-00 OMB-01 /055 W
-----040615 080924Z /11
R 080849Z MAY 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 7710
INFO USMISSION GENEVA

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E.O. 11652: N/A
TAGS: EAIR, ETEL, JA
SUBJECT: INTERNATIONAL AIR AND TELEX/TELEPHONE RATES
VS. THE RISING YEN: IS AN ADJUSTMENT CALLED FOR?

REF: (A) TOKYO 7439, (B) TOKYO 7511

SUMMARY: THE GOJ HAS ANNOUNCED ITS INTENTION OF
STUDYING BOTH INTERNATIONAL AIR FARES AND TELEPHONE/
TELEX RATES TO ASSURE THAT BENEFITS OF YEN APPRECIATION
ARE PASSED ALONG TO THE CONSUMER. THE GOJ'S APPROACH
ON THESE ISSUES IS LIKELY TO BE CONSERVATIVE SINCE
YEN-BASED OPERATING COSTS ARE INVOLVED. EMBASSY WILL
ENCOURAGE MINISTRIES TO PURSUE REVIEWS LIBERALLY.
END SUMMARY.

1. ON APRIL 21, AS PART OF ITS ANNOUNCED CURRENT
ACCOUNT REDUCTION PROGRAM, THE GOJ SAID THAT IT WOULD
EXAMINE BOTH INTERNATIONAL AIR FARES AND TELEX/TELEPHONE
RATES TO ASSURE THAT THE BENEFITS OF THE APPRECIATED
YEN ARE PASSED ALONG TO THE CONSUMER. THE RELATIVE
PRICES OF THESE INTERNATIONAL SERVICES HAVE BECOME
DISTORTED IN JAPAN AS THE YEN/DOLLAR RATIO CHANGES
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AND YEN PRICES REMAIN PEGGED TO A MULTI-LATERAL
ACCOUNTING UNIT SUCH AS THE IATA FAIR CONSTRUCTION
UNIT (FCU). ALTHOUGH THE YEN/DOLLAR RATE HAS CHANGED
SIGNIFICANTLY, THE FCU REMAINS FIXED AT 296 YEN TO
THE DOLLAR. IATA HAS SET THE ECONOMY TOKYO-NEW YORK
AIR FARE AT 681 FCU WHICH, AT THE OFFICIAL FCU RATE,
EQUALS 201,000 YEN, THE AMOUNT CURRENTLY CHARGED FOR

THIS TICKET IN JAPAN.

THE FARE FROM NEW YORK TO TOKYO COSTS THE SAME 681 FCU'S OR \$681. HOWEVER, IF ONE USES THE ACTUAL YEN/DOLLAR EXCHANGE RATE (CURRENTLY \$1225 YEN), THE 201,600 YEN FARE IS EQUIVALENT TO \$896; THUS A TOKYO-NEW YORK TICKET COSTS \$215 MORE THAN THE EQUIVALENT NEW YORK-TOKYO FARE.

2. JAPAN AIR LINES, THE COUNTRY'S INTERNATIONAL CARRIER AND 70 PERCENT OF WHOSE OPERATING COSTS ARE IN YEN, HAS NOT SOUGHT ADJUSTMENT OF THESE RATES, NOR HAVE OTHER INTERNATIONAL CARRIERS OPERATING OUT OF JAPAN. LOCAL TRAVEL AGENTS TOO APPEAR SATISFIED SINCE ROUGHLY 80 PERCENT OF THEIR BUSINESS IS YEN-DENOMINATED GROUP AND CHARTER TOURS. JAPANESE BUSINESS TRAVELERS AND THE TOKYO-BASED U.S. BUSINESS EXECUTIVES KNOW OF THE DIRECTIONAL DIFFERENCE AND MANY TRAVELERS ARE NOW BUYING ONE-WAY TICKETS TO THE U.S. WITH THE RETURN SEGMENT BOUGHT IN THE U.S. FOR "CHEAPER" DOLLARS. THE JAPANESE CONSUMER, FOR THE MOST PART, REMAINS UNINFORMED ABOUT THE DIFFERENCE IN AIR RATES.

3. IN A SOMEWHAT SIMILAR MANNER, THE INTERNATIONAL TELEPHONE/TELEX RATES CHARGED BY KOKUSAI DENWA DENSHIN (KDD) ARE GREATLY OUT OF LINE WITH PRESENT YEN/DOLLAR EXCHANGE RATES. THE RATE USED BY KDD IS LIMITED OFFICIAL USE

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360 YEN EQUAL TO \$1 AND A MINUTE OF INTERNATIONAL TELEX OR TELEPHONE SERVICE COSTS 1080 YEN. HOWEVER, IN A PRESS INTERVIEW GIVEN SHORTLY BEFORE THE GOJ'S APRIL 21 ANNOUNCEMENT, KDD PRESIDENT ITANO INDICATED THAT THIS RATE WAS ONE OF A SERIES SET MULTILATERALLY AND COULD ONLY BE ADJUSTED AFTER A "THOROUGH STUDY" BY THE INTERNATIONAL TELECOMMUNICATIONS UNION (ITU).

4. FOLLOWING THE GOJ'S APRIL 21 ANNOUNCEMENT, THE EMBASSY CONTACTED VARIOUS GOJ OFFICIALS TO FIND OUT WHAT TYPES OF REVIEW WERE ACTUALLY PLANNED. ALTHOUGH THE EPA SOURCE IN REFTEL B SOUNDED OPTIMISTIC, OUR OTHER SOUNDINGS INDICATE THAT THE JAPANESE APPROACH ON THESE MATTERS IS HIGHLY CONSERVATIVE. JAL PRESIDENT ASADA HAD REPORTEDLY SAID THAT AIR FARES WILL BE ADJUSTED DOWNWARD BUT ONLY AFTER FARES ARE RAISED FROM OTHER COUNTRIES. THE JCAB, IN APPARENT AGREEMENT, HAS TOLD US THAT ANY AIR FARE ADJUSTMENTS WILL TAKE PLACE ONLY WITHIN THE ESTABLISHED IATA RATE SETTING MECHANISM. THE JCAB WILL APPROVE THE RECENT IATA AGREEMENT CALLING FOR A 6 PERCENT SURCHARGE ON TRANS-PACIFIC FARES AND WILL "STUDY" WHETHER ANY

DOWNWARD ADJUSTMENT IN THE YEN RATE IS NECESSARY.
IN ANY EVENT, THEY ASSERT, NO ACTION WILL BE POSSIBLE
UNTIL THE NEXT IATA RATE MEETING SCHEDULED FOR SEPTEMBER.

5. THE EMBASSY PLANS TO ENCOURAGE THE RESPONSIBLE
MINISTRIES AND THE MOFA TO PURSUE THESE RATE REVIEWS
AS LIBERALLY AS POSSIBLE. ASST. SEC. KATZ EXPRESSED
INTEREST IN THIS PROBLEM DURING HIS RECENT VISIT TO
TOKYO AND WE WOULD APPRECIATE THE DEPARTMENT'S
GUIDANCE IF STRONGER ACTION ON THESE QUESTIONS SHOULD

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BE TAKEN. EMBASSY ALSO REQUESTS A BRIEF REPORT ON
THE STATUS OF THE IATA RATE PROPOSAL BEFORE THE USCAB.
MANSFIELD

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